

Fiscal Note & Local Impact Statement

127th General Assembly of Ohio

Ohio Legislative Service Commission
77 South High Street, 9th Floor, Columbus, OH 43215-6136 ✧ Phone: (614) 466-3615
✧ Internet Web Site: <http://www.lsc.state.oh.us/>

BILL: **Sub. S.B. 273**

DATE: **April 1, 2008**

STATUS: **As Passed by the Senate**

SPONSOR: **Sen. Niehaus**

LOCAL IMPACT STATEMENT REQUIRED: **No — No local cost**

CONTENTS: **Requires the calculation of alternate percentile rankings used to compute the local shares of certain districts' basic project costs under programs of the School Facilities Commission and makes other changes**

State Fiscal Highlights

- The bill makes various changes that lower certain school districts' local shares of the costs of facilities projects. This will reduce the costs of the projects borne by the school districts and increase the costs borne by the state.

Local Fiscal Highlights

- Am. Sub. H.B. 119 of the 127th General Assembly instituted a policy change to allow a school district to be served sooner and receive more funding from the state if the district's net gain in open enrollment students is at least 10% of the district's formula average daily membership. The H.B. 119 provision affects funding beginning in FY 2010. The bill allows approximately 19 districts that have not yet been offered funding under the state's Classroom Facilities Assistance Program (CFAP) and approximately three districts that have been offered funding to receive the benefits of this policy change before FY 2010.
- The bill permits districts with large decreases in adjusted property valuation per pupil for FY 2008 to base their local shares of CFAP funding on their adjusted property valuation per pupil for that year rather than on a three-year average. This provision is expected to lower the local share of approximately one school district.
- For districts that are approved for funding for additional facility projects after previously receiving funding, the bill caps the local shares of the additional projects. This provision is expected to benefit about 15 districts.
- The bill permits, in FY 2008, the School Facilities Commission to spend up to 3% of instead of up to 2% of certain state facilities funding on the Joint Vocational School Facilities Assistance Program. This may allow more joint vocational school districts to receive funding in FY 2008.



Detailed Fiscal Analysis

The bill makes various changes that affect certain school districts' local shares under the Classroom Facilities Assistance Program (CFAP), the main program of the School Facilities Commission (SFC), and in one case under the Exceptional Needs Program (ENP). CFAP is a state and local partnership to rebuild all Ohio schools. It is designed to address all of a school district's facility needs. The funding priority as well as the state and local shares of a project cost are largely determined by a district's percentile ranking in its three-year average property valuation per pupil (with a small income adjustment). A school district with a lower percentile ranking (i.e., a lower wealth district) is generally served first and has a greater state share of the project cost than a district with a higher percentile ranking (i.e., a higher wealth district). For most districts, in fact, the percentage of the project cost that comprises their local share is equal to their percentile ranking. Under current law, the Ohio Department of Education (ODE) is required to certify to SFC, by September 1st of each year, a list of school district percentile rankings in valuations per pupil. This percentile ranking list is also commonly known as the equity list. In a given fiscal year the prior year's equity list is used for purposes of determining CFAP funding eligibility as well as state and local shares of a project cost. Therefore, CFAP funding for FY 2009 is based on the equity list for FY 2008.

The bill requires the recalculation of certain districts' percentile rankings, which will result in lowering the local share of certain districts' CFAP projects. This will reduce the costs of the projects borne by the school districts and increase the costs borne by the state. The actual cost changes will depend on the project costs of the affected districts, which in most cases have not yet been determined. This analysis gives estimates, where available, of the decrease in affected districts' percentile rankings. For most districts, this decrease in percentile ranking will translate into an equivalent decrease in the districts' local share percentages of their basic project costs.

Open enrollment adjustment

Am. Sub. H.B. 119 of the 127th General Assembly instituted a policy change to include a district's net gain in open enrollment students in its formula average daily membership (ADM) for purposes of calculating the district's valuation per pupil if the district's net gain in open enrollment students is at least 10% of its formula ADM.¹ With a constant total taxable valuation, adding additional students to a district's formula ADM effectively lowers the district's valuation per pupil, thus lowering the district's percentile ranking and allowing the district to be served sooner and receive a greater state share. This policy change took effect September 29, 2007, a date after the deadline by which ODE is required to certify the equity list for FY 2008. Therefore, the policy change made in H.B. 119 will first affect the equity list for FY 2009, which will be used for CFAP funding in FY 2010.

The bill requires ODE to calculate an alternate equity list for FY 2008. This alternate list is to include net open enrollment students in a district's formula ADM as required by H.B. 119

¹ A district's formula ADM generally includes students who are residents of the district. Open enrollment students are those nonresident students who enroll in the district through an interdistrict open enrollment policy.

for purposes of calculating a district's valuation per pupil. SFC is to use this alternate list to determine FY 2009 CFAP funding for a district that has not previously been offered funding. This provision effectively allows school districts to start receiving the H.B. 119 benefits one year sooner, in FY 2009 instead of FY 2010.

According to the most current data received from ODE, about 47 districts will receive lower percentile rankings in the alternate equity list for FY 2008. Of these 47 districts, 28 districts either have already been offered CFAP funding or have percentile rankings on the alternate list that are too high to qualify the district for funding in FY 2009. SFC anticipates that many of the remaining 19 districts, shown in the table below, may be offered CFAP funding in FY 2009. As seen from the table, the differences in school district percentile rankings between the original and alternate equity lists for FY 2008 range from a thirty-seven percentile rank change for New Boston Local in Scioto County to a two percentile rank change for Elgin Local in Marion County. Note that the number of districts, as well as their percentile rank changes, may be somewhat different by the time the final alternate list is calculated.

Comparison of Percentile Rankings for School Districts that May Be Served in FY 2009				
School Districts	County	Percentile Ranking – Original Equity List for FY 2008	Percentile Ranking – Alternate Equity List for FY 2008	Ranking Difference
New Boston Local SD	Scioto	49	12	-37
Old Fort Local SD	Seneca	53	25	-28
Fairport Harbor Ex Vill SD	Lake	72	50	-22
Pettisville Local SD	Fulton	39	18	-21
Weathersfield Local SD	Trumbull	58	40	-18
Franklin-Monroe Local SD	Darke	34	17	-17
Hopewell-Loudon Local SD	Seneca	67	52	-15
Botkins Local SD	Shelby	44	30	-14
Jefferson Township Local SD	Montgomery	48	35	-13
Shadyside Local SD	Belmont	57	45	-12
Clay Local SD	Scioto	32	20	-12
Ridgedale Local SD	Marion	52	41	-11
Arcadia Local SD	Hancock	59	49	-10
Western Reserve Local SD	Mahoning	56	46	-10
Pleasant Local SD	Marion	66	57	-9
Crestview Local SD	Columbiana	27	20	-7
Russia Local SD	Shelby	41	35	-6
College Corner Local SD	Preble	13	10	-3
Elgin Local SD	Marion	45	43	-2

The bill also applies the open enrollment net gain count to certain school districts that received conditional approval from SFC for a CFAP project after July 1, 2006 and prior to September 29, 2007 (the date the H.B. 119 policy change went into effect). These districts must have an open enrollment net gain of 10% or more of their formula ADM in the fiscal year prior to the fiscal year they received SFC approval. In addition, the districts must have received

approval from their electors for a bond issue to pay for the local share within one year of SFC approval and must not have completed the project before September 29, 2007.

For each district that meets these criteria, the bill requires ODE to recalculate that district's percentile ranking for the fiscal year prior to the fiscal year it received SFC approval including the district's net enrollment gain for that year. The bill then requires SFC to use the recalculated percentile ranking to redetermine the district's local share of the basic project cost. SFC estimates that three districts will have reduced local shares as a result: Fairlawn Local (Shelby), Millcreek West Unity Local (Williams), and Ridgemont Local (Hardin).

Property valuation adjustment

As mentioned above, the equity list used for CFAP funding is based on each district's three-year average adjusted property valuation per pupil. The bill requires ODE to create a second alternate equity list (in addition to the one that includes the open enrollment adjustment as described above) for FY 2008. SFC is to use the second alternate equity list to determine funding priority and the state and local shares for FY 2009 for those school districts that have not received CFAP assistance in any year prior to FY 2009 and for which the district's rank on this second alternate equity list is at least 15 percentiles lower than the district's ranking on the original equity list. Based on data received from ODE, it appears that Switzerland of Ohio Local in Monroe County would be affected by this provision. Switzerland of Ohio's ranking on the original equity list (three-year average adjusted valuation per pupil) is 52, which will fall by 15 to 37 based on this alternate equity list (one-year average adjusted valuation per pupil).

Local shares for additional SFC projects

In general, when a district receives facilities assistance from the state, this assistance addresses all of the district's facility needs. However, districts that received facilities assistance prior to SFC creation in May 1997 may have only received assistance for partial fixes and, therefore, may be awarded assistance for an additional project. Also, some districts are found to require additional assistance while their initial project is under construction.² Other districts that receive facilities assistance through ENP³ also may need assistance for an additional project to address all their facility needs. The bill establishes a new method for determining local shares of the additional projects funded for these districts.

For most districts, the local share of the basic project cost is equal to the district's percentile ranking on the equity list. However, a district's local share may be higher if the district's required level of indebtedness⁴ is not met using the percentile ranking. Generally, the required level of indebtedness provision only applies to a district that has a small project size relative to its property valuation. Districts receiving funding for additional projects as described above are more likely to have small projects since a portion of their facility needs have already

² The additional assistance can be for reasons such as correcting an oversight or deficiency in a district's initial assessment or for extreme enrollment growth.

³ ENP generally assists school districts in addressing the health and safety needs associated with a specific building instead of addressing the entire district's needs as under CFAP. No school districts reasonably expected to be served by CFAP within three years can apply for ENP assistance.

⁴ The calculation of indebtedness for this provision is specified in the Revised Code.

been met. Therefore, under current law, the local shares for these projects may be higher than the district's percentile ranking.

The bill caps these districts' local share percentages. The cap is the greater of their percentile ranking at the time the additional project is approved or their local share percentage paid for the previous project. According to SFC, about 15 districts may be affected by this provision.

Joint vocational school district (JVSD) funding

Under current law, SFC is permitted to set aside annually up to 2% of the aggregate amount appropriated to the Education Facilities Trust Fund (Fund N087), the Public School Building Fund (Fund 7021), and the School Building Program Assistance Fund (Fund 7032) for the Joint Vocational School Facilities Assistance Program (VFAP), which is the main classroom facilities program that supports the state's 49 JVSDs. The bill increases the set-aside amount to up to 3% for FY 2008 only. This increase would allow JVSDs to receive more funding in FY 2008 if SFC chooses to spend up to the 3% limit. About eight JVSDs have been served by VFAP since its creation in FY 2003, with another seven being offered SFC funding in FY 2008.

LSC fiscal staff: Edward Millane, Budget Analyst

SB0273SP/lb